THE McKNIGHT FOUNDATION

1953·2003

50 YEARS THE COMMON THREAD

2003 ANNUAL REPORT

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We work to bind communities closer and weave a better quality of life. We help braid together ecosystems that are sustainable. We help mend the places that life has worn thin.

And while we knit, we listen.

Sometimes what we hear compels us to work faster. Sometimes we need to unravel a few rows and begin a different pattern. Sometimes we discover new opportunities.

All the while, the thread that runs through our work—our vision—tugs us steadily toward a more humane and secure world.

THE TWINKLING OF A TALE Though we celebrated our 50th anniversary in 2003, our story began well over 50 years ago. It's a tale that twinkled into being with the marriage of two remarkable souls, William McKnight and Maude Gage. He was a man of quiet strength, nimble intelligence, grounded perceptions, and keen insight. She was a humble woman with the wisdom of the ages, patient with every fiber of her being, gentle, and kind to the core. Once married, they set about the noble work of raising a family and the awesome challenge of raising a company. Without question, they were highly successful on both fronts. Their daughter, Virginia McKnight Binger, was a special human being (more on that sentiment later), and the company, 3M, has become the pride and joy of all who Post-it, tape-it, heal-it, paint-it, reflect-it, you-name-it, they-make-it and they-do-it oh-so-well.

CHAPTER ONE: A MOST ROTUND DELIVERY Maude and William shared a long and fulfilling life together. And just when most would have settled in for a leisurely retirement, these two—always looking for new challenges—birthed a foundation! This most rotund delivery took place in 1953, with the creation of The McKnight Foundation. Predictably, it resembled its parents in every way.

Both Maude and William came from humble, working-class backgrounds, which inspired them to give to nonprofit organizations that helped those in need. In appreciation of the state that enabled 3M's growth, they focused their giving largely in Minnesota. With these guiding principles in place, the two hoped their philanthropic investments would inspire compassion, community cohesiveness, spiritual growth, and civic engagement.

William and Maude not only nurtured the Foundation into being, they gave it a heart and soul. By giving back to their community, they honored the many blessings that had been given them.

CHAPTER TWO: WHERE THEY LEAD WE WILL FOLLOW In 1974, William made his last ledger entry and handed the philanthropy checkbook over to his daughter, Virginia McKnight Binger. Thus began the second chapter of our tale. As Ginnie set about the work of leading the Foundation, she enlisted her husband, Jim Binger; her three children; and her pastor, Russ Ewald.

Built on assets and values already bestowed, the Foundation's second chapter was defined by smart, thoughtful grants to help people meet basic human needs. These grants were intended to mitigate life's challenges and tragedies; to increase understanding of the root causes of social and economic ills; and to inspire leadership, connection, and hope. Large and small, they were all given in good faith and with the utmost trust and respect.

This remarkable chapter was deftly scripted by its two leaders, Ginnie and Russ, who traveled together throughout the Twin Cities and Greater Minnesota visiting with folks from all walks of life—experiencing fully what it means to connect with and hear from community members. This deep interest in the issues and people of Minnesota

endures today as a defining characteristic of the Foundation. Sadly, we've lost both Ginnie and Russ, but the humane, responsive culture and grantmaking portfolio they created still serve as ballast in McKnight's dynamic, often adventurous, work.

CHAPTER THREE: AROUND THE TABLE, TOGETHER IN PHILANTHROPY Our third chapter is still unfolding. Thus far, we know that Ginnie and Jim pass on their leadership to a board made up of their children, grandchildren, in-laws, and a community member. With a Foundation staff that's grown to 32, we move our office to a new home on the mighty Mississippi that is truly inviting to friends and colleagues. In this new home we gather around the table, together in philanthropy, to learn, share, respond, and map out McKnight's future.

I find it is the very act of gathering as a family that is the most profound aspect of our work as a board. While the blessings in this work are many, it is a true gift to have the opportunity to sit with my extended family on a quarterly basis to talk through shared interests and passions, and sort through how we might best shepherd our resources to meet the human and environmental challenges of our time. It is in this way that my family gathers; it is in this way that my cousins and I were raised. We grew up playing together on the periphery of board meetings in my grandparents' living room, overhearing our grandparents and parents share ideas, wrestle with dilemmas, welcome input, and ultimately, set the stage for the future—for our "today."

While we've moved the board meetings out of my grandparents' living room and into the Foundation's office, the feel is much the same as it was in the early days. The cast has grown up a bit, we have added fresh perspectives with our new board members, and we are surrounded by an amazingly intelligent, compassionate, professional staff. Yet much remains the same. The common threads of innovation, compassion, and responsive philanthropy that were so carefully woven into the fabric of this foundation 50 years ago still hold our family and our work together. If anything, these threads have lengthened and strengthened over the years, drawing us even closer to each other and to the community in which we all belong.

Replete with a sense of history and an appreciation of common bonds and family togetherness, I end this letter by giving thanks for the opportunities we all have to reach out in compassion toward one another and to all living things. As human beings, we are each a blend of profound vulnerability and unbelievable resilience. And together we are capable of great things.

BOARD CHAIR

The retrospective essays in this report read like the stories of nine different people from nine different backgrounds at nine different ages. Some are seasoned, others just discovering their own promise. Some are eager to seek out new paths of community change, others prefer to work quietly and effectively behind the scenes. Some have learned to walk fast, others meander and pay more attention to stops along the way. Despite their differences, however, these program histories share three threads of consistency.

First, each program was formed around the strong values of the founders and their family.

Noa Staryk's letter describes her grandmother's humility, servant-leadership, and compassion, qualities deeply embedded in the Foundation's grantmaking. For Virginia McKnight Binger, people in need came first, pure and simple. No matter what the program area, this commitment to people is the "string" we follow to get home. It allows us to explore widely but never lose our bearings.

Virginia's family, now into its third generation, has created a wide-ranging set of programs all built on the bedrock of service to people. The neuroscience program emerged from William McKnight's intense interest in combating age-related memory loss. The Foundation's aspiration to help rebuild the village economies of Southeast Asia grew out of Mac Binger's experiences as a Navy pilot during the Vietnam War. The arts program echoes both James Binger's and Cynthia Boynton's understanding of the importance of cultural activity to every community. The human services program has been shaped at a number of key junctures by family interest—for example, the Congregations in Community initiative was spurred by Pat Binger's interest in connecting communities of faith to help low-income parents. The list could go on and on.

Second, the Foundation's investment in Minnesota has made place-based grantmaking the fulcrum of our work.

The Foundation clearly has invested in people outside Minnesota, but its course is still largely determined by conditions in our home state. The decision to invest deeply and long term in a defined set of communities may have given us a smaller universe to work in, but it certainly has not diminished the challenges of the work itself. Our progress is just as often characterized by detours, roundabouts, leaps, and back-steps as it is by straight lines.

Laws change, and we must react quickly and creatively. Economic conditions change, and we have to respond with new tools. Demographics shift, and we have to rethink our approach to community development. Ecological conditions deteriorate, and we have to channel more resources to meet imminent crises. Opportunities arise, and we have to seize them. Each circumstance requires that we carefully strike a balance between change and continuity, between new approaches and current practice.

Third, the growing variety and complexity of the tools we use have shaped our strategies.

The Foundation was established to carry out responsive giving—grantmaking tied directly to people's immediate needs and born of compassion for those who are suffering, denied equal opportunity, or marginalized in our society. As the surrounding social climate has become more complex, the Foundation, together with the field of philanthropy generally, has increasingly supplemented direct charity with an interest in understanding and attacking the root causes of social problems.

The essays suggest that marrying these two impulses is more difficult than it sounds. But they also underscore the degree to which the two are already linked. On one hand, supporting front-line organizations that work with those in need is an indispensable part of promoting public policy reform. On the other hand, without altering, however slightly, the machinery of governmental and civic relationships, it is difficult to help individuals. Overarching civic change is improbable, therefore, without a firm grounding in the daily life circumstances of individuals.

As these two aspirations are joined, it becomes more critical to call upon a wider range of resources and activities. For example, the tool of convening allows us to capitalize on the community's intellectual power to forge linkages among sectors and issues. Through research, we can build and help make widely accessible an enviable knowledge base. Using communications, we can explore what public education and civic engagement strategies work best. Our flexible and patient capital can plant and cultivate ideas in areas otherwise neglected by private markets. By supporting networks, we can promote an atmosphere of joint inquiry and concerted action. Twenty years ago many of these tools and tactics didn't exist or weren't used within the philanthropic community. Today, they are among our most powerful catalysts for social change.

Our programs are connected by yet another thread, perhaps the most telling one of all—the high value we place on relationships with our partners. No matter our expertise, experience, or financial resources, every single program has depended on other organizations and individuals to set its agenda and accomplish its objectives. That's why we devote so much time to building and sustaining relationships. For us, relationships are not a value added, but an integral part of our work. They are the thread that keeps us humble.

Our 50th anniversary is less an end than—as Noa observes—the beginning of a new chapter. The occasion gives us a reason to pause, take stock, and contemplate what lies ahead. We have been privileged to work across so many areas with people possessing seemingly limitless energy, talent, commitment, and hope. We hope this book serves in some small measure as a statement of our thanks to each of them.

PRESIDENT

McKNIGHT WORKS IN NINE AREAS. THE FOLLOWING ESSAYS TRACE THE EVOLUTION OF THESE PASSIONS OVER OUR 50-YEAR HISTORY.

THE FACTOR THAT UNITES THEM—THE COMMON THREAD—IS OUR WILL TO CREATE A MORE POSITIVE WORLD, STARTING IN MINNESOTA AND STRETCHING TO OTHER PARTS OF THE GLOBE.

Children and Families

HELP

CHILDREN

THRIVE

From the time Virginia McKnight Binger, the Foundation's first chair, and Russ Ewald, its first executive, started making visits to homeless shelters in the 1970s, the basic DNA of the Foundation was in place. It would be a foundation animated by compassion for society's less fortunate, committed to the social responsibilities that accompany privilege, and tempered by humility. The external expressions of that DNA would change over time, but the basic code would endure.

Binger and Ewald understood that helping people in need required both direct assistance to organizations that served those people and support for efforts that influenced the public policy environment in which those organizations worked. The two leaders further realized that because the plight of disadvantaged families was a complicated web of issues such as childcare, job training, financial "literacy," emergency needs, housing, parenting skills, chemical dependency services, and many others, the Foundation had to invest across a spectrum of approaches. The trajectory of the Foundation's support for children and families in need was set by those two impulses.

On one hand, the Foundation's early grantmaking reflected the breadth of direct assistance programs that families needed. It created a loan program for low-income, single parents to help them achieve greater economic self-sufficiency; supported food, shelter, and employment emergency services; and promoted job training for hard-to-employ workers.

On the other hand, it pursued public policy change. It supported conferences where practitioners in

THEN AS NOW, WE SOUGHT TO HONOR OUR FOUNDING VALUES OF HUMILITY, COMPASSION, AND SOCIAL RESPONSIBILITY.

particular fields could learn from one another, and underwrote advocacy. It provided seed money to initiatives such as the Work Opportunities Projects, which directed public sector attention to the needs of unemployed people when their benefits expired; the Minneapolis/St. Paul Family Housing Fund, which financed low-income housing; and the Lowertown Development Corporation, which spurred the revitalization of downtown St. Paul. It furnished "social venture capital" to pilot projects such as Hennepin and Ramsey counties' preventive efforts to identify children at risk for parental abuse.

Russ Ewald captured the consistency of purpose between those two impulses when he wrote in 1984: "The Foundation's role in public policy has grown and will continue to do so. We will strive, however, to ensure that our focus is on meeting the basic human needs of people, and to remember that whatever facts are generated, models developed, programs monitored, or policies advocated are done so with that singular focus: to help people lead more productive lives."

In some cases the direct service grants fostered greater attention to public policy. In others, public policy underscored the need for direct assistance. This interplay would be revealed repeatedly over the next 20 years.

In 1988, the Foundation launched the "Aid to Families in Poverty" program to help prevent teen pregnancy, strengthen effective parenting practices, promote jobs that would lead to family self-sufficiency, and enhance public and private sector responsiveness to families living in poverty. It awarded 33 grants to churches and small community-based agencies to both develop personalized assistance to reduce the isolation of low-income families and work toward larger systemic solutions.

In 1996, many of these same principles coalesced in the Congregations in Community initiative. Five Twin Cities faith-based institutions representing nearly 900 congregations, mosques, and synagogues created life-altering volunteer opportunities for their members at scores of nonprofits that needed helpers to serve meals, operate food shelves, sort clothing, shelter families, and much more.

A year later, the Foundation began a $27 million commitment to encourage Minnesota communities to work together to help implement federal welfare reform. The sweeping changes would have a swift and hard-hitting impact on many poor Minnesotans—increasingly the working poor—who were struggling to achieve fundamental social equity.

Our grants to 22 partnerships around the state called on communities to see their own responsibilities in this issue—and they responded. The Welfare to Work partnerships designed education, training, childcare, transportation, and mentoring programs. They formed a network that exchanged ideas and worked in concert for changes in state regulations. They developed awards to recognize the extraordinary obstacles many families had overcome to become self-sufficient, and engaged policymakers to secure future funding streams.

As the resources of the Foundation grew in the 1990s, its interests expanded as well: we added the environment, crop research, and energy programs and repositioned our arts, international, and housing programs. This was not a drift away from our commitment to the least fortunate, but a broadening of the various ways and locales in which life opportunities could be enriched. As the Foundation's second executive, Michael O'Keefe, wrote in 1990, if the Foundation's programming were a fruit, it would be an orange—"a circle of sections, held together, but separable, each segment distinct."

Similarly, over the last half-dozen years, the Foundation has explored with greater intentionality how it might use all the tools available to philanthropy to improve conditions for children and families. We began to think far beyond grants, using our research, convening, communications, and investment capacities in more strategic ways. A good example is the variety of approaches we have taken toward improving early developmental opportunities for children.

Ensuring that children have a decent start in life requires a mix of family nurturing, governmental programs, business initiatives, nonprofit effort, and public support. It means strengthening the quality of childcare, improving education and compensation for childcare providers, funding early literacy and school readiness opportunities, investing in parenting education, and integrating a fragmented early childhood care and state education system that makes it difficult for parents to access services. It requires a major shift in public attitudes: citizens must see these kinds of efforts as an enlightened investment, not an onerous expense.

For McKnight's portfolio, this meant proceeding on multiple fronts. We supported organizations serving bilingual families with young children. We funded intermediaries that brought together parents, service providers, and educational institutions to improve the quality of child-care and early education. We seeded a new nonprofit, Ready 4 K, which was charged with developing a coherent statewide early childhood agenda. We partnered with the Minnesota Initiative Foundations to launch efforts in 36 rural communities to expand opportunities for young children. We underwrote a University of Minnesota pilot project that provided intensive family support through four child-care centers. We funded a national organization to help Minnesota learn from effective early childhood practices and policies in other states.

This work is different in scope rather than kind from the Foundation's earliest human services efforts. Then, as now, we recognized the need for a comprehensive approach that engages in public policy reform and supports front-line organizations. Then, as now, we sought to honor our founding values of humility, compassion, and social responsibility.

As our board chair, Noa Staryk, wrote at her grandmother Virginia McKnight Binger's passing, "Ginnie always wanted to improve life for those in need—a value we still hold dear. We have the freedom, in fact her blessing, to find the best ways to fulfill this mission. This flexibility is a precious gift indeed."

Neuroscience Research

UNDERSTAND

AND CURE DISEASES

OF THE BRAIN AND

MEMORY

As he grew older, William L. McKnight talked often about memory: what it was, how it worked, and why it faded with time. One can only imagine how a man who had relied so much on his mind, judgment, and memory felt as age began to take its toll on those faculties. He personally contributed hundreds of thousands of dollars to brain research, mostly in Florida, where he lived in his later years.

When his daughter, Virginia McKnight Binger, became Foundation president in 1974, she and executive director Russ Ewald put brain research firmly among our grantmaking priorities. While seeking a more purposeful way to honor McKnight and his interest in the brain, the board made several grants to promote the field, such as endowing a faculty position in neuroscience at the Mayo Clinic School of Medicine in Rochester, Minnesota.

For ideas on creating a full-fledged program, we turned to the best people we could find: Fred Plum, M.D., a distinguished professor of neurology at Cornell University Medical School in New York, and Julius Axelrod, Ph.D., a Nobel Prize-winning neuroscientist at the National Institutes of Health in Bethesda, Maryland. They recommended a national program of research awards. The Foundation's board agreed that not only would research help unlock the secrets of the brain, but it was also a meaningful way to pay tribute to McKnight. He was not a scientist, but McKnight understood the contributions research made to the future and appreciated that risks were required to test new ideas.

McKNIGHT UNDERSTOOD THE CONTRIBUTIONS TO THE FUTURE AND APPRECIATED THAT

Plum and Axelrod enlisted several colleagues to help us establish the McKnight Awards in Neuroscience in 1976. Initially, we set aside $750,000 per year to support fundamental research in neuroscience, especially as it pertains to memory and the biology of memory. Overseen by a committee of noted researchers that reported to McKnight's board of directors, the program offered two types of awards: McKnight Scholar Awards for scientists just starting their independent laboratories, and McKnight Awards for Research Projects for more advanced investigators.

In 1986, the awards were further formalized with the establishment of The McKnight Endowment Fund for Neuroscience. The endowment fund is an independent nonprofit organization solely supported by The McKnight Foundation, but with its own board of directors.

Initially, the endowment fund established three awards programs, continuing the Scholar Award and adding triennial Development Awards for scientists in midcareer and Senior Awards for established scientists wishing to try new techniques and approaches. While the awards were small by research standards—tens of thousands of dollars or a few hundred thousand as opposed to the million-dollar grants sometimes dispensed by the federal government—they have proved enormously valuable because of their flexibility. That is, they allow a scientist to explore a new idea at an early stage, without the burden of proof some more traditional funders demand.

Because they seed innovative thinking, the awards have served the field well. Many pilot projects that received modest funds from McKnight later became mainstream projects supported by the National Institutes of Health. Many endowment fund awardees went on to prestigious honors (three have received the Nobel Prize, as have

two board members). And many are associated with important developments in fundamental neuroscience. Among other accomplishments, McKnight awardees have revealed the process of electrical signaling in the brain, identified the mechanisms that guide the formation of precise connections in the brain of higher mammals, and explained how the spinal cord develops.

By 1999, the endowment fund's board realized the program needed to change to reflect rapid progress in the field. Basic research around the world had tremendously advanced the study of neuroscience. The growth of biochemistry, genetics, and molecular biology had enabled neuroscientists to study the proteins, nucleic acids, and neurotransmitters that allow the brain to function as it does. To encourage scientists to apply these advances to the study of disease, the fund refocused the awards to spark innovation and illuminate the intersection between basic and clinical research.

Accordingly, the fund's board created two new annual awards while continuing the Scholar Award. The Technological Innovations in Neuroscience Award encourages physical scientists, such as physicists and engineers, to bring their knowledge to bear on the study of the brain and also encourages interdisciplinary collaboration. The Neuroscience of Brain Disorders Award supports creative research to apply recent developments in basic neuroscience to understanding neurological disease. The board also opted to hold its conference annually instead of every other year to hear about awardees' work and give scientists a chance to share ideas both formally and informally.

The McKnight Endowment Fund for Neuroscience receives about $4 million per year from the Foundation. A 10-member board led by Corey Goodman, Ph.D., and including seven other prominent neuroscientists and two Foundation representatives, leads the endowment fund and selects the awardees.

Through The McKnight Endowment Fund for Neuroscience, we express two of our deepest values: our hope for the future and our belief in the necessity of long-term solutions. Ever since our founders' days, we have wanted to help find a cure for a disease. That goal underlies this program. We know, of course, that the road from the laboratory to diagnosis, prevention, or cure is long. But it begins with a basic understanding of the processes involved, with new ideas, and with taking a chance. William L. McKnight, who created the first laboratory at 3M, a company now known worldwide for the breadth and quality of its research, would agree.

RESEARCH MADE

RISKS WERE REQUIRED TO TEST NEW IDEAS.

Crop Research

IMPROVE FOOD PRODUCTION IN THE DEVELOPING WORLD

Worldwide spending on agricultural research totals about $25 billion a year. This gigantic industry, fed by international organizations, national governments, corporations, and private funders, faces a correspondingly gigantic problem: providing food security for a growing population on a diminishing supply of arable land, complicated by pollution, politics, climatic conditions, and often unreliable transportation systems.

Given the scale of the problem, can a small player such as a foundation find a way to contribute relatively modest dollars that make a difference?

We first asked ourselves that question in 1980, when our growing assets prompted us to expand our funding priorities. We polled board members to determine their interests for the Foundation, and food and agriculture were at the top of the list. We were especially interested in helping to make sure people all over the world could feed themselves.

We asked experts in the field how we might address the problem with a long-term strategy. Their answer was to fund research in plant science. With their help, we developed two programs: the McKnight Awards for Interdisciplinary Research Projects in Plant Biology, and the McKnight Awards for Individual Research Projects in Plant Biology. Over 10 years, beginning in 1983, we gave about $18.5 million to plant science at U.S. universities. An evaluation found that the programs had elevated the importance of basic plant science and had stimulated

FOOD IS AS MUCH A CULTURAL AS
IF IT DOESN'T REFLECT THE CULTURE

interdisciplinary approaches, which were innovative at the time but now are common.

In the later years of our plant biology programs, a few proposals focused on crops important to developing countries, such as sorghum. That made us aware of the urgent need for agricultural research in developing countries, particularly to help people whose daily needs had been bypassed. In many countries, government-sponsored research facilities lacked up-to-date laboratory equipment and offered low salaries and poor working conditions, driving many well-trained young scientists into the private sector or even into permanent exile. As a result, research in developing countries languished, and important food crops remained under-invested.

In 1992, we sponsored a colloquy and report, "Plant Science in Service of International Agriculture and Global Food Security," examining approaches to improving crop productivity through research and ways to link research to the needs of communities. The report and subsequent planning led in 1993 to our Collaborative Crop Research Program (CCRP). We strive to enhance scientific leadership and research capacity in developing countries, stimulate research on neglected crops, and help countries build a sustainable capacity to ensure their own food security.

Today we support 14 projects in 11 countries in South America, Africa, and Asia. These projects have been chosen from hundreds of proposals in two rounds of requests, with the third round in progress. Unlike most of our other grantmaking programs, we don't award funds every quarter or even every year but instead make a project commitment that acknowledges the time it requires to do this work.

The CCRP has a scientific oversight committee, chaired by Robert M. Goodman, Ph.D., with a rotating membership that helps to ensure that the projects stay focused on food security and make progress. A program director, Rebecca Nelson, Ph.D., is based at Cornell University.

Our systems approach considers food security in the broadest sense, from planting seeds to controlling pests in environmentally responsible ways to storing, distributing, and consuming the crops. One project involves research in India on finger millet, a cereal crop that grows under marginal conditions and is highly nutritious. Many people depend on it in times of famine, but drought and blast disease can destroy it. Scientists at the University of Agricultural Sciences in Bangalore are working to develop hardier varieties that will suit local farmers' preferences.

In Kenya and Uganda, two different projects are studying sweet potato, a food staple in that part of the world. Scientists are working to develop a sweet potato that resists weevils and viruses and is also more nutritious. A sweet potato richer in vitamin A might help keep 250,000 to 500,000 children from becoming blind each year from vitamin A deficiency. And pest resistance would mean higher yields.

A distinguishing feature of the CCRP is its participatory nature. Our research includes both farmers and communities to make sure real needs are met and the results can be put into practice. Food is as much a cultural as a scientific fact of life, and agricultural research can't do any good if it doesn't reflect the culture it is intended to benefit. Each project is led by top scientists from developing countries, who set the priorities and work in partnership with advanced labs in other countries.

The Foundation contributed $12.5 million to the CCRP between 1993 and 2000 and has made a $42 million commitment to the program through 2009. The goal of the next round of grants is to translate knowledge from the lab to local communities.

Although McKnight is a place-based foundation focusing mostly on Minnesota, the CCRP aligns with our mission and our legacy. In striving to improve the quality of life for all people, we work through the CCRP to enhance food security around the world.

A SCIENTIFIC FACT OF LIFE, AND AGRICULTURAL RESEARCH CAN'T DO ANY GOOD IT IS INTENDED TO BENEFIT.

Moreover, agriculture is part of our heritage. Our founder, William L. McKnight, was the son of pioneer homesteaders who farmed 160 acres near White, South Dakota, beginning in the 1880s. Seeing that farming was a hard and uncertain life, he left home to seek his fortune elsewhere. But something of the farmer stayed with him—notably an appreciation for the land, a belief in pulling together to help each other, and a sense of stewardship—values that are reflected in the CCRP.

International

ENCOURAGE

VILLAGE AND

FAMILY SELF-

SUFFICIENCY

Our international program is a study in the way that very personal gestures of the heart can evolve into highly strategic philanthropy. It also offers proof that small grants can make enormous improvements in the lives of individuals and communities in developing countries.

Nearly 20 years ago, when we began making international grants, the board's main interests were worldwide disaster relief, conflict resolution, and peacekeeping. The objective was to help stop human suffering, and our first grants went to large, international organizations for conferences and strategy development in areas such as family planning, maternal and child health care, nutrition, refugee assistance, disease control, human rights, and upgrading the status of women.

What was perhaps even more remarkable than the breadth of this original aspiration was the decision by our board members to assume personal responsibility for the initiation and review of international funding requests. They would seek out personal interchange with program participants and observe firsthand the needs of people and possible solutions. Because it touched them so deeply, they wanted to keep their own hands in this work.

Starting in the late 1980s, they began visiting refugee camps in Thailand and Malawi, and programs to improve the lives of women in four other African nations. As they learned about each country, their focus moved from large, international organizations to small, on-the-ground organizations working to alleviate poverty at the village level.

WE HAVE BEEN SO IMPRESSED WITH THE ENORMOUS DIFFERENCE THAT

THAT MUCH OF OUR CURRENT INTERNATIONAL FOCUS IS ON

Doing international work with a very modest grantmaking budget—2–3 percent of our total payout—has forced us to discover and rely on leverage points that magnify our impact. Many times, these leverage points have had less to do with large organizations and more to do with daily village life and local self-help efforts. We have been so impressed with the enormous difference that small grants can make in remote villages that much of our current international focus is on communities outside the funding mainstream. Our support not only dramatically improves quality of life but helps push the needs of these communities onto the radar of other well-established funding and service organizations.

As McKnight's international program matured throughout the 1990s, it followed three strategic paths.

The first narrowed McKnight's original support for large international organizations to a focus on conflict resolution through preventive diplomacy and the prevention or resolution of human rights violations. (By 2000, the Foundation phased out this kind of work.)

The second built on the passions of board member Mac Binger, whose service as a Navy pilot during the Vietnam War led to an intense interest in helping rebuild the economies of Southeast Asia. We have sought to build the capacity of local leaders in three nations—Laos, Vietnam, and Cambodia—to deliver health services and human development programs, and to work toward the creation of economic opportunities.

We have, for example, funded a medical services organization to improve the ability of local hospitals to serve ethnic minorities in a remote province of Cambodia. We have provided funds to help Hmong refugees returning from Thailand rebuild their communities. We have supported the training of women in rural Vietnam to build small

businesses and access government sources of micro-credit. Increasingly, we are supporting micro-enterprise activity and community development that integrates food security, health, and economic development.

The third path led to Africa. It focused on enhancing women's economic opportunity and the well-being of families in Tanzania, Uganda, and Zimbabwe. We decided our investments had to reflect the socioeconomic realities of village life in sub-Saharan Africa. Those realities were that women were the community glue—the producers, caregivers, informal bankers, and educators.

Accordingly, we have invested in programs that help women start, develop, and manage micro-businesses—from peanut butter processing to beekeeping. We have funded organizations that teach them to grow crops and raise animals for their families both to eat and to sell. We have supported training that shows women how to manage and conserve natural resources—for example, developing farming projects along the borders of national parks and forests to replace income they previously took in by encroaching on protected areas. We have explored ways to promote a closer connection between women's increasing economic roles and an enhanced social standing. We have made awards to organizations that increase the capacity of communities to care for AIDS orphans.

The board's commitment to our international program has kept the members directly connected through trips and careful review of each and every grant. To increase our intelligence in the geographic areas we are interested in, we have also developed long-term relationships with consultants who act as our eyes and ears, and who are in close communication with the board.

Our work in Southeast Asia and Africa has brought us much greater patience and humility. In the international arena, everything takes longer, American cultural assumptions often do not translate well, and transactions we take for granted—such as wiring money—often don't work. Or if they did two hours ago, they don't now.

The limitations of philanthropy also become clear. Small increments of progress can be swamped unexpectedly and swiftly by social, economic, political, or natural forces; our knowledge of systems is almost always incomplete, so we may set one activity in motion only to encounter a host of unanticipated reactions; lessons we learn from one place may not, when all is said and done, be readily exportable to another.

SMALL GRANTS CAN MAKE IN REMOTE VILLAGES

COMMUNITIES OUTSIDE THE FUNDING MAINSTREAM.

Yet, over the years, we've affirmed that the same core principles undergirding our work in Minnesota are equally applicable overseas. Build the capacity of people to help themselves. Stay flexible. Focus on underserved populations. Let the change come from the bottom. Concentrate funding where it can really make a difference.

All of what we have learned underscores the importance of international giving to McKnight's founding impulses and enduring mission: compassion for those in need; giving that reflects the dignity of individuals; leadership that first and foremost listens.

Minnesota Initiative Foundations

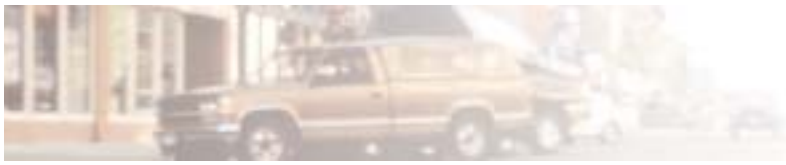
MAKE GREATER MINNESOTA STRONGER AND MORE PROSPEROUS

It was as if a tsunami wave hit Greater Minnesota in the early 1980s. New technologies and competitors washed over the traditional mining and logging industries. Crop prices plummeted, the effects ricocheting throughout the larger agricultural economy. Rural communities were losing jobs, people, hope, and a way of life.

Unless steps were taken, much that we valued in Greater Minnesota would be lost. Forever. That was unthinkable in a state where so much of our identity and culture was built on rural values and the rural experience.

Obviously, McKnight wanted to help. Consulting with 60 leaders across the state, we came to three conclusions about how best to do that. First, we wanted to keep rural Minnesotans in charge—they were closest to the problems and should be the ones to decide which philanthropic directions they wanted to pursue. Second, a Twin Cities-based foundation simply putting up money for worthy causes was too short term a solution. We needed a strategy that stimulated local action and giving—one that would encourage and sustain a philanthropic tradition in Greater Minnesota. Third, rather than address the plight of Greater Minnesota with one broad gesture, we decided to take a targeted approach that divided the state outside the Twin Cities into six regions.

In hindsight, this regional strategy introduced a middle level of decision making and policymaking that had been missing in Minnesota. It was more tailored than the undifferentiated approach the state typically took to non-metro issues, and less scattered and less complicated than "every community for itself." Individual towns and



cities began to coalesce into a region with a unique identity, greater collective resources, a common purpose, and more political clout. Nearly two decades later, these six regions are widely embraced models for those who want to understand and help Greater Minnesota.

In 1986, with McKnight as midwife, the Minnesota Initiative Funds were born—six separate governance structures with steering committees and strategic plans. We then joined the State of Minnesota in providing the funds with $5 million each in seed capital over their first five years.

McKnight has now invested a total of $210 million in these funds. The funds themselves have raised an additional $110 million, made grants and loans totaling $170 million, and established collective endowment assets of more than $125 million.

From the beginning, the funds' work has been intentionally catalytic. At their mezzo-level, they can both push up and push down. They are leaders in defining challenges and responses within their respective regions, and in advocating policy change to state lawmakers. Each also emphasizes to community leaders within its own geographic area how important it is to work together toward common goals and avoid wasting time, energy, and money on parochial rivalries.

Because they are relatively small, efficient, and closely connected to local citizens, businesses, and officials, the funds have the agility to respond quickly to new ideas. They can furnish the critical "gap" financing that jump-starts a business, providing jobs and wages for families. They can bring together government and nonprofit

sectors to improve the quality of systems and services. They can provide the social venture capital necessary to explore how best to improve the lives of people in greatest need. The results of their leadership can be seen in scores of practical, down-to-earth ways. In any region, it is possible to walk through the doors of businesses, community organizations, town halls, and public agencies and meet the funds' beneficiaries face to face.

Each fund has carved out a unique leadership agenda that reflects that region's history, culture, and resources. West Central Minnesota has chosen to train residents for manufacturing jobs. Southwest Minnesota is developing innovative responses to an aging population base. The southeast region has created financing, technical assistance, and other supports for an emerging biomedical industry, and the central region has elevated the importance of community planning and the stewardship of natural resources. Northeast Minnesota has introduced a citizen engagement process to foster supportive environments for children, and the northwest region has drawn together its communities to protect the natural environment.

As they have matured, the initiative funds have also begun navigating the waters of cooperative, cross-boundary policy efforts.

With financial help from us, this year they launched a planning process in 36 rural communities that enhances opportunities for children to get the emotional, academic, and social support they need to be ready for school. Along with McKnight, the University of Minnesota, umbrella organizations serving children, and business organizations, the funds have built a strong case for long-term investment in young children and succeeded in moving the public awareness needle on this issue.

They have also become the linchpin in a collaborative rural development project that aligns resources around a single issue within each of the six regions—from wind energy in the Southwest to helping health care workers climb career ladders in West Central Minnesota. By identifying key strategies, convening a breadth of stakeholders, and working with multiple sectors to marshal resources, the funds have suggested the potential power of reshaping state economic development policy using a regional perspective.

These two efforts illustrate how profoundly the initiative funds—or initiative foundations as they now are called—have changed, all the while remaining true to their original mission. They have learned how intertwined the economic well-being and social health of their regions really are, recognizing that businesses need workers who have safe and affordable housing, access to reliable early childhood care, and quality out-of-school-time options for their older children. They have come to realize that the natural environment is one of Greater Minnesota's greatest assets, pushing the protection of lakes, rivers, prairies, forests, and wetlands into their region's topmost investment priorities. They have become comfortable working cooperatively on projects without sacrificing their individual efforts to build financial bases that will let them serve their regions long into the future.

The initiative foundations have, in the past 18 years, become indispensable players in our state's aspirations to reweave and strengthen the fabric of life in Greater Minnesota.

IN HINDSIGHT, THIS REGIONAL STRATEGY INTRODUCED AND POLICYMAKING THAT HAD BEEN MISSING IN MINNESOTA.

The Mississippi River

RESTORE AND MAINTAIN A HEALTHY RIVER

Environmental protection is a complicated proposition for a place-based foundation. The issues tend to resist neat corralling within a geographic fence. In 1989, when board member Mac Binger raised the possibility of introducing an environmental component into the Foundation's work, our first challenge was to identify a set of issues sufficiently narrow to affect Minnesota's quality of life, but broad enough to justify marshaling new resources.

Issues like global climate change or biological diversity were too expansive; waste disposal or Midwest prairie protection, too limited. The Mississippi River seemed to split the difference.

Originating in Minnesota's Itasca State Park, the Mississippi can be seen as the single defining natural feature of our state—the birthplace of commerce in Minneapolis and St. Paul, and the most formative force in the rural landscape between the headwaters and the Iowa border. It made no sense, however, to arbitrarily cut off our involvement with the river at that border, so we decided to structure a program covering the Mississippi's more than 2,000-mile expanse.

Selecting the river was one thing. Settling on which of its aspects to focus on was quite another.

Water quality was a given. Clean water from the Mississippi is essential not only for the 15 million people who drink it, but also for the viability of recreation and for the health of thousands of animal and bird species. Yet industrial, residential, and agricultural activities were generating runoff that was carried by the river and contributing

WE NOW HAVE A MORE COMPREHENSIVE UNDERSTANDING OF THE COMPLEX

THE QUALITY OF WATER; THE USES OF THE ADJACENT LAND; AND THE NEEDS OF THE

to the Gulf of Mexico's "Dead Zone"—a swath of the ocean larger than the state of Massachusetts in which aquatic life is impossible because of the oxygen-depleting effects of pollution.

Land protection was also critical. As the river widens on its journey south, it meanders through scenic bluffs, backwater wetlands and marshes, and wildlife refuges, until it empties into the grand and ever-changing Louisiana Delta. It was clear that no particular governmental agency or philanthropic entity was paying attention to land use along the river's course, a situation that would inevitably lead, over time, to the loss of key pieces of the nation's natural heritage.

So, too, was the fate of cities, towns, and villages along the river important. From Minneapolis-St. Paul to the Quad Cities in Iowa and Illinois, from St. Louis to the settlements along "Cancer Alley" north of New Orleans, the river has for a century shaped patterns of daily life. The key to long-term economic health for many of these communities was to turn their faces once again to the river, introducing pedestrian paths and bikeways; cleaning up industrial waste; and creating museums, interpretive centers, and other focal points for broader public appreciation of the river's history and future.

The first generation of our Mississippi River program began in 1991 and focused on these three building blocks. Our first efforts were modest—often grants to grassroots organizations advocating for river beautification or strategic planning. But these grants laid an indispensable foundation for greater organizational capacity and incipient networks among organizations that were until then working in isolation.

The second generation of the program was more ambitious. We promoted agricultural practices that minimized soil erosion, and we intensified riverfront revitalization efforts, particularly in St. Paul, the Quad Cities, and St. Louis. Farther south, we explored how poor, African American communities in Louisiana could be more effective at fighting the pollution produced by mile upon mile of petrochemical plants.

The third generation layered on activities that helped us better understand and address the effects of federal management on the waterway. For more than a century, the United States Army Corps of Engineers has borne responsibility for promoting navigation and commerce along the Mississippi. That management has not, however, been unequivocally beneficial. Dredging the main stem's channel, diking flood plains, straightening out the bends, introducing an elaborately constructed and maintained lock and dam system—the collective impact has been a profound reshaping of the river's ecosystem, all too often at the expense of environmental integrity.

INTERACTION OF FORCES AFFECTING THE RIVER IN ALL ITS DIMENSIONS: PEOPLE WHO LIVE, WORK, AND RECREATE ALONG THE RIVER'S LENGTH.

The program in its current form has stitched all these elements together. We now have a more comprehensive understanding of the complex interaction of forces affecting the river in all its dimensions: the quality of water; the uses of the adjacent land; and the needs of the people who live, work, and recreate along the river's length.

Much of our grantees' work attends to what is happening on the ground day in and day out: protecting drinking water; advancing ecological restoration projects; encouraging farmers to conserve land, protect wildlife habitat, and mitigate pollution; and strengthening community organizing to move issues of "environmental justice" onto the public stage.

An important adjunct to these activities is the effort of our grantees to create networks of information, expertise, and cooperative action essential to protecting the river as a whole. That includes linking interpretive centers that stretch through the 10-state region; promoting cooperative efforts to raise public awareness of the challenges and opportunities of river preservation; and drawing together business, government, advocacy organizations, and citizens on revitalization projects that cross jurisdictional lines.

Our grantees have also ventured into the realm of public policy—those laws, regulations, and practices that define the broad context for river enhancement—through their involvement in federal farm legislation, state pollution control standards, efforts to reform the Army Corps of Engineers' approach to river navigation, and many others.

Like the river itself, our program has expanded from rather modest beginnings. It mirrors the river's interconnections. It is difficult to imagine the work ever being fully completed—its scale is too vast, its importance too great.

Energy

PROMOTE

AND DEVELOP

RENEWABLE

ENERGY

Almost 15 years ago, The McKnight Foundation began dedicating funds to encourage energy conservation and the use of clean, alternative energy in Minnesota. This initiative reflected the interests of two board members, Mac and Pat Binger, who appreciated how closely linked energy issues were to environmental damage.

Indeed, there is a very real connection between our work to protect the Mississippi River and the impact of energy use. For instance, pollution from burning coal to generate electricity is eventually deposited in the river and its watershed. Encouraging clean alternative energy production helps eliminate the need for dirty coal plants and helps improve water quality.

Energy, in which decision making is so centralized and regulation so tight, also seemed an interesting environmental counterpart to the egregious lack of centralized vision or regulation along the river.

McKnight's first energy grants followed two tracks: building Minnesota's capacity to promote energy policy change, and connecting renewable energy to business transformation. Advancing along the first track meant staffing up advocacy organizations and linking them with the scientific and technical expertise they needed to become more influential. It also meant contributing to public policy analysis, public information efforts, and public participation in state-level policy forums.

On track two, our vision was to create an identity for Minnesota as a major center of renewable energy

and energy efficiency technology. We believed that building a competitive alternative energy sector in Minnesota would lead to clean energy production with related manufacturing support. Our objectives were to build markets, create jobs, and improve the environment.

The result was the creation of Energy Alley, a swath that runs from the high plains of southwestern Minnesota to Lake Superior and is now home to hundreds of companies engaged in the manufacture of such products as geothermal pumps, energy-efficient building materials, biomass-fired power plants, and energy-efficient fluorescent lights.

Initially, our energy program focused on Minnesota, but within a few years we realized that the state's energy market couldn't be isolated. As our interest in wind energy grew, it became essential that we consider cross-border areas that might generate wind power used here, become markets for Minnesota-generated wind, or provide power transmission routes. The subsequent expansion of our program into the Upper Midwest also reflected a loosening of state regulation of the power system, a change that required all players to consider regional and national markets.

Today, wind power is the world's fastest-growing source of electricity and, because of its wind-rich terrain, the Upper Midwest—the Dakotas, Minnesota, Iowa, Wisconsin, and Illinois—has been dubbed the "Saudi Arabia of wind." A decade ago, that potential was only beginning to be understood. But the Minnesota Legislature opened the door to a new era when it required Northern States Power Company to purchase at least 425 megawatts of wind power a year (enough to power the city of Minneapolis) by 2002.

Over the next decade, it became increasingly clear to advocates, regulators, policymakers, farmers, and utilities, among others, that the more wind power we produce, the less money we spend on coal from Wyoming and natural gas from Canada and the Gulf Coast. Keeping hundreds of millions of dollars close to home means more jobs

here, more capital available for growth, and more prosperity.

By 2003, the Upper Midwest had installed its 1,000th megawatt of wind power, enough to meet the residential needs of the entire Twin Cities. That figure also represented $1 billion worth of investment in equipment and services, 3,100 jobs, $4 million annually in royalty payments to farmers, and $3.6 million in tax payments to local governments to help fund roads, schools, and health care in rural areas.

As the wind power industry graduated from cottage industry to big business, it proved it could be both an environmental enhancement and a hard-core economic development engine. By the late 1990s, the technicalities of the field and the dizzying pace of change had led us to channel our energy agenda through a sophisticated intermediary. The Energy Foundation in San Francisco, a nonprofit organization committed to advancing energy efficiency and clean energy, fit the bill. Through grants to Minnesota organizations and through its own research, analysis, and policy advocacy, The Energy Foundation has helped shape the Upper Midwest Clean Energy initiative.

That initiative promoted large-scale purchases of renewable energy, which expanded the size of the industry. It sought to remove market and regulatory barriers to renewables, reducing the region's reliance on outdated, dirty, and wasteful energy technologies. It also attempted to build the manufacturing base for the wind turbine components, expanding the region's share of the burgeoning international wind energy market. It also attempted to increase public understanding and acceptance of the benefits of wind power, particularly among farmers, financiers, and rural communities.

Perhaps no part of this initiative has been more challenging than the transmission of wind to market. It's one thing to marvel at the hundreds of wind turbines sprouting in the fields of southwestern Minnesota; it's quite another to ensure that the resulting energy finds its way onto the transmission "grid" that will distribute it throughout the region. The windiest areas in the region, especially North and South Dakota, are far from the major electricity markets such as Chicago, Minneapolis, and Milwaukee. There are even problems getting wind power from Southwest Minnesota to Minneapolis, and from Northwest Iowa to Des Moines.

Developed in response to the needs of coal and nuclear power plants, the transmission grid has very little additional capacity for alternative sources. That capacity is closely controlled by regional transmission authorities that have tended to favor traditional fossil-fuel power over wind, an energy source that's smaller in scale, more intermittent in its output, and geographically more spread out.

In response, the McKnight and Energy foundations funded Wind on the Wires. A collaborative organization that brings together wind developers, environmental organizations, wind energy experts, tribal representatives, and clean energy advocates, Wind on the Wires works to remove bottlenecks in the transmission system and to ensure that the "rules of the road" give wind energy equal access to transmission lines.

The alternative energy agenda is far broader than just wind power. Biomass (the conversion of plants into energy), solar-thermal energy, photovoltaics, and many other approaches will, with policies that are even more forward looking, play strong roles in meeting future U.S. energy needs. But wind energy holds particular promise for Minnesota and its sister states in the Upper Midwest. We have the right blend of wind, resourceful rural communities, and a skilled manufacturing base to draw international capital to our economies, to provide new income to farmers and localities, and to reduce our over-reliance on fossil fuels.

COTTAGE INDUSTRY TO BIG BUSINESS, IT PROVED IT COULD BE BOTH AND A HARD-CORE ECONOMIC DEVELOPMENT ENGINE.

Arts

IMPROVE QUALITY AND ACCESS IN THE ARTS

If you believe Minnesota mythology, the state's reputation as a cultural mecca dates from the early 1960s, when a handful of civic leaders successfully lured Sir Tyrone Guthrie to Minneapolis to establish the nation's first regional theater. The truth is that the state was already home to such organizations as the Minneapolis Institute of Arts, Walker Art Center, Minneapolis Symphony Orchestra, the embryonic Saint Paul Chamber Orchestra, community theaters, the Swedish Institute, and a variety of other cultural attractions.

But the mythology underscores just how strongly these leaders believed that cultural anchors were indispensable in helping the region compete for businesses and residents—that, together with well-educated workers, a good business climate, and a rich natural environment, this was one part of a formula that would distinguish the Twin Cities from other Midwestern cities.

Over the next 20 years, nurturing these large anchoring arts organizations became a hallmark of Minnesota's cultural scene. In large part because of their success, an impressive collection of small and midsize arts organizations began to flourish here too: film centers, dance companies, experimental theaters, visual arts collectives, galleries, chamber music groups, literary presses, and many more.

The arc of McKnight's arts support traced these developments. Until the early 1990s, when we hired our first arts program officer, the Foundation focused on supporting major arts institutions, the 10 regional arts councils

FIRST, WE WOULD FAVOR ART THAT PROMOTED A MORE

NOT THAT FOCUSED

scattered across the state, and a few artist fellowship programs. As the diversity and depth of the arts scene grew, it became clear that we would need a different lens for viewing grant requests. Our deliberations yielded a handful of guiding principles.

First, we would favor art that promoted a more robust community life, not that focused exclusively on private expression. Artist service organizations were a good case in point. Venues such as the American Composers Forum, the Playwright's Center, the Northern Clay Center, the Loft Literary Center, and the Textile Center not only help individual artists survive, but enable them to connect with the public by raising questions, feeding our imaginations, and fostering new marketplaces.

We recognized that any arts strategy aspiring to community development cannot ignore the importance of individual artists. Civic culture is animated not just by arts organizations, but by artists themselves and the objects, activities, and ideas they create. These contributions can show up in local coffeehouses, give form to a transit stop, open new worlds to schoolchildren, connect cultures to their histories, or advance dialogue on the pressing issues of the day. We created individual artist fellowships in more than a dozen disciplines, and launched our Distinguished Artist Award, given annually to recognize one individual's lifetime contribution to the arts in Minnesota and beyond.

Because art can act as ballast during times of accelerating social change, stimulating creativity in community problem solving, we also wanted to ensure the longevity of Minnesota's vital arts culture. Fostering sustainability takes many forms: deepening the capacity of organizations to build their audiences; convening people to identify paths to more broad-based arts support; and calling attention through research, publications, and convenings

to the personal and professional obstacles artists face.

Throughout the redefinition of our arts program, we were steadfast about McKnight's support being statewide and not just limited to large population centers. Since the mid-1980s, we had provided money to regional arts councils that re-granted to artists and communities in Greater Minnesota. Expanding that gesture, we began making grants directly to nonprofit arts organizations, particularly those committed to providing rural access to the arts. We also funded a variety of efforts that brought artists out of isolation and into the community life of rural towns and cities.

As these principles were put into play, we were surprised a number of times by discoveries and developments that ended up reshaping parts of our program.

One small example was finding out just what it takes to be financially viable as an artist. When we asked Minnesota artists six questions in our 1999 "The Cost of Culture Survey," we learned that many felt they would need to make at least $25,000 a year from their art to pursue it full time. At the time, our fellowships provided considerably less support, so we adjusted them accordingly. We also learned from that survey how invisible many artists felt in the Minnesota marketplace. That led us to the creation of an award-winning, statewide artists website, www.mnartists.org, in partnership with Walker Art Center.

Similarly, in 2002, when we surveyed the state of suburban arts in our book, *A New Angle*, we expected to find a growing cultural life that reflected the slowly evolving patterns of Twin Cities regional growth. What we weren't prepared for was just how central the arts had become to creating a sense of place and enhancing the livability of suburban communities. Confronting deep-seated stereotypes about the presumed shallowness and uniformity of cultural expression outside the region's two core cities, *A New Angle* generated lengthy debate over how suburban arts are, could be, and should be supported. That debate worked its way back inside the Foundation, triggering reflections and reassessments that continue to the present.

A third unexpected influence on our program was the wave of capital and endowment campaigns Minnesota cultural organizations proposed at the peak of the stock market climb a few years back. We gathered together other Minnesota grantmakers to explore just how some $700 million in plans might affect our traditional giving patterns. Would capital campaigns displace funders' willingness to provide operating support? Could the new facilities outstrip organizations' ability to pay for them over time? Would these campaigns distort the giving climate for small, grassroots organizations? There were no clear answers to these questions, but the mere asking began a process of inquiry that has become even more relevant amid the current economic downturn.

ROBUST COMMUNITY LIFE,

EXCLUSIVELY ON PRIVATE EXPRESSION.

These turns in the road depict what is perhaps a final guiding principle for the arts program—and no doubt all our others: flexibility. In the arts, our challenge is to be nimble enough to help ensure the vitality both of the whole and of all the parts—small, medium, and large groups; individuals, organizations, and communities; and urban, suburban, and rural citizens. That means acknowledging, nourishing, and at times trying to help re-balance Minnesota's increasingly rich and complex arts ecosystem.

Region and Communities

PROMOTING

BALANCED

REGIONAL

GROWTH

In the 1970s and '80s, the national view was that Minneapolis-St. Paul had little in common with other metropolitan areas struggling with growth pressures. We seemed set apart by our progressive, reform-minded politics; diversified and prosperous economy; and abundant natural amenities.

Underlying those perceptions, however, was another reality. The same postwar growth patterns experienced by most other metropolitan areas hit us, too. With cheap land on the region's edge, and fast, uncrowded highways to get there, people could build their dream homes at increasing distances from the urban core and travel easily to work or shop. Tax code provisions, local zoning regulations, and public sector investments in sewers, schools, roads, and bridges all dramatically tilted the public policy table toward low-density, large-lot residential developments and industrial parks in suburban areas, siphoning redevelopment investment from the region's older communities.

The result has been predictable, and alarming. We have consumed land with dizzying speed, to the point that we now digest a chunk the size of the Mall of America every day. Poverty has become concentrated in the core cities and older suburbs, leaving us the fourth most segregated metro area in the country. Traffic congestion has worsened at an annual rate matched only by Atlanta.

In fairness to our region, we anticipated early on the need to address these pressures. Not only did we create a regional planning agency, the Metropolitan Council, way back in the 1960s, but we gave it real teeth a

decade ago by investing it with operational authority for the region's sewer, transportation, recreation, and land use systems. But the magnitude and speed of growth made it clear that the Met Council alone couldn't handle the pressures. Others needed to become engaged.

It took time for The McKnight Foundation to get comfortable with the notion that we could, or should, make grants that affected suburbs. Old biases die hard: were these not, after all, places of wealth and privilege where families thrived, streets were safe, and communities were all of one kind? A couple of early research grants opened the door—and our eyes—a bit.

First and foremost was our support for Myron Orfield's seminal research, which demonstrated that poverty and blight were making their way into older, working-class suburbs with low tax capacity, few amenities, and little power to put the brake on their own decline. The second was a grant to the University of Minnesota's Design Center for the American Urban Landscape to look more closely at our "first-ring" suburbs. The center showed that within the short span of 50 years, our region's postwar, first-ring communities had become buried within sprawl—their homes out of date, their residents isolated from economic growth, and their families increasingly living one paycheck away from disaster.

This research prodded us into thinking more broadly about our program work and whether it addressed the realities of the entire region. It quickly became clear how much easier it is to recognize regional interdependence than it is to translate it into a grantmaking portfolio.

We started by reaffirming a few long-held, guiding principles that applied both in inner cities and in aging suburbs, such as:

- improving the choices of people isolated from economic and social opportunity;
- reversing the flight of private capital markets from low-income neighborhoods and aging commercial centers;
- ensuring the availability of affordable, safe housing; and
- building broad-based citizen engagement in civic affairs.

Applying those principles in the suburbs, however, raised unusually thorny questions. The first was the issue of scale. The size, cost, and complexity of regional systems would require that we consider carefully our purposes and entry points. We would, for example, likely focus less on "projects" and more on strengthening connections among cities and communities, and among sectors.

Second, there was the sticky matter of politics. Housing choices, local control over land use decisions, transportation funding, and a host of related issues carry high political valances, inevitably giving rise to heightened visibility and, potentially, controversy. Were we prepared to be the subject of talk radio shows? To have our actions dissected in newspaper editorials?

Third, we had to ensure that a regional lens would keep living, breathing people directly in focus. Protecting a wetland, starting a safe-routes-to-school project, and encouraging better suburban land use all have a human dimension, of course. But each skirted the question of how to honor the Foundation's long-standing commitment to improving opportunities for disadvantaged people.

From the beginning, we sought to balance our focus between places where sprawl was already rapidly advancing—invasive, inefficient, inequitable development at the region's edge—and places where sprawl begins—inner-city neighborhoods. The former lend themselves readily to "smart growth" grantmaking: open space protection, transportation policy reform, expanded suburban housing opportunity, and improved local and regional planning. The latter less so. But by the late 1990s, the nature of the connection had become clearer.

In the 1980s and 1990s, as in so many other American cities, markets abandoned certain parts of Minneapolis and St. Paul. Unemployment rates climbed as high as 30 percent in some neighborhoods, contrasted to 3.5 percent for the region. Key commercial corridors, long the backbone of neighborhood economies, were abandoned. Poverty deepened, its effects visible in skyrocketing school dropout rates, heightened crime rates, deteriorating public health, and countless other symptoms of social, economic, and political despair.

OUR FOCUS BETWEEN PLACES WHERE SPRAWL WAS ALREADY RAPIDLY ADVANCING BEGINS—INNER-CITY NEIGHBORHOODS.

Regional growth is propelled not only affirmatively by a dream of life behind a picket fence in a tranquil exurban village, but also negatively by an aversion to these kinds of symptoms. The combination of this pull from the outside and push from the inside is the essence of sprawl. Counteracting sprawl would require, therefore, efforts both to modulate the centrifugal energy and to intensify the centripetal energy that would draw people inward to attractive, safe, diverse inner-city neighborhoods that capitalize on an already-built environment.

We concluded that one of the most effective ways to draw people back to the city was to invest long term in the community development movement—community development corporations and neighborhood associations committed to creating the kind of housing, commercial

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development, schools, and social service supports that will enable inner-city neighborhoods to compete with the suburban dream.

This balancing of "inside" and "outside" games is, however, only a single dimension of the regional program that has emerged over the last half-dozen years. We continue to invest in the discrete elements of regional growth: housing, transportation, open space protection, local and regional decision making. But we have also placed a premium on the interlacing of these elements. Affordable housing must be located near employment opportunities, and people have to be able to ride public transportation to their childcare center, grocery store, or health clinic.

We continue to put grant money into the hands of community organizations—whether grassroots advocates seeking to promote transportation choices in a particular community or networks of organizations all pulling in the same direction to promote affordable housing. But we also emphasize the value of tools such as research, communications, and convening.

For example, we commissioned a thought paper, *A New Angle*, to examine the role of the arts in the Twin Cities suburbs. We knew that role was changing as new arts centers sprouted up throughout the region. What we didn't know, however, was just how profound that change was. *A New Angle* showed that, slowly and subtly, the arts have helped create a sense of place and promote a sense of livability in suburban communities.

Similarly, working with a dozen land protection organizations, we launched an open space protection communications campaign that sought both to wake citizens up to the region's dramatic loss of natural resources and to instill in those same citizens a belief that their voice matters in the public arena—that they can affect land use decisions in their locality.

A third example arose from our realization that the three dozen organizations working in the field of regional growth management found it difficult, if not impossible, to take the time to think about one another's work. We brought those organizations together repeatedly over two years to explore the possibilities of working together. The result was their decision to create the Smart Growth Organizing Project, an interdisciplinary group from the housing, environmental, transportation, and land use advocacy communities that will build the capacity of individual organizations to do more effective regionwide community organizing and policy research.

WE ALSO EMPHASIZE THE VALUE OF TOOLS SUCH AS RESEARCH, COMMUNICATIONS, AND CONVENING.

Balancing traditional investments and emerging opportunities, working across disciplines, utilizing a wide array of tools—all have tested the ability of McKnight to be proactive while remaining responsive to ideas emerging from the field. These efforts have become ever more central to the Foundation's mission as we contemplate a future in which regional forces increasingly shape the lives of those we seek to serve.

THE
McKNIGHT
FOUNDATION

1953·2003

EARLY CHILDHOOD IN MINNESOTA

The McKnight Foundation contributed $3.2 million toward a three-year effort with the Minnesota Initiative Foundations to identify and promote early childhood care and education opportunities in 36 Greater Minnesota communities and to create local strategies to fill the gaps. In 2003, the first 24 communities were selected because of early care and education partnerships already in place, as well as other expressions of commitment in support of young children and their families.

ENERGY FOUNDATION

The Foundation devoted more than $8 million over three years to a renewable energy program in seven Upper Midwest states through The Energy Foundation in San Francisco, with which McKnight has had a 10-year partnership. McKnight's investment seeks to promote renewable energy, primarily wind power; to capitalize on and promote the Upper Midwest's leadership role in national energy policy; and to reinforce the economic development potential of alternative energy investments in hard-hit rural areas.

ARTIST FELLOWSHIP

The McKnight Artist Fellowship Program for Filmmakers was announced. This new fellowship program for individual film artists in Minnesota will recognize the professional and artistic accomplishments of midcareer Minnesota artists working with film and video. Twin Cities filmmaking service organization IFP Minneapolis/Saint Paul will administer the program and give two fellowships of $25,000 each annually, beginning in 2004.

CONFERENCE ON EARLY CHILDHOOD DEVELOPMENT

In October, McKnight co-hosted (with the Federal Reserve Bank of Minneapolis and the University of Minnesota) the conference, "The Economics of Early Childhood Development: Lessons for Economic Policy." The conference explored the economic benefits of public investment in early childhood development, and drew together national experts in public policy research, economics, and early childhood development.

VIRGINIA McKNIGHT BINGER AWARDS IN HUMAN SERVICE

In November, McKnight honored 10 Minnesotans for giving time and energy to improve the lives of people in their communities. The awards are named for the Foundation's former chair and president, Virginia McKnight Binger, who died in December 2002 after serving the Foundation for nearly 50 years. The 2003 ceremony was dedicated to Virginia's memory and featured a live musical performance by Minneapolis singer/songwriter Larry Long honoring her.

ARTIST AWARD

Realist-style painter Mike Lynch received the 2003 Distinguished Artist Award, after influencing the arts in Minnesota for nearly 40 years with artwork that hangs in Minnesota museums and public buildings, and that is included in some of the state's best-known art collections. The annual award recognizes Minnesota artists who have made significant contributions to the quality of the state's cultural life. The award carries a $40,000 cash prize.

AFFORDABLE HOUSING

McKnight approved $10.5 million to support increasing the supply of affordable housing through the Greater Minnesota Housing Fund of St. Paul. Through grants, loans, and services, the fund has become the principal private funder and catalyst of affordable housing for working families in Greater Minnesota. The organization has encouraged employer investments and cost-reduction techniques, while linking best practices in affordable housing with more balanced regional development.

CHAMPIONS OF OPEN SPACE

In 2003, McKnight's Embrace Open Space public service campaign presented its first Champions of Open Space Awards to recognize political activists in Dakota County, landowners in Washington County, and a citizen action group in Eden Prairie. The Embrace Open Space campaign is an initiative of 13 organizations concerned about protecting open spaces in the metro region; the "Champions" program celebrates the contributions of individuals, organizations, and communities in open space preservation.

NOBEL PRIZE IN CHEMISTRY

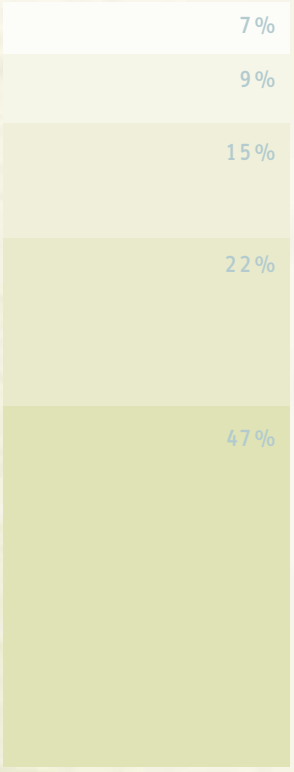
Roderick MacKinnon, Ph.D., a past recipient of The McKnight Endowment Fund for Neuroscience's scholar and investigator research awards, was one of two recipients of the 2003 Nobel Prize in Chemistry. The Nobel award recognizes MacKinnon, who is a professor at Rockefeller University in New York, for revealing the process of electrical signaling in humans and other living organisms. MacKinnon is the fifth Nobel laureate associated with McKnight's Endowment Fund for Neuroscience.

NEW OFFICE SPACE

In January, the Foundation moved to a new office along the Mississippi River in downtown Minneapolis. Mindful of environmental implications, McKnight chose to help renovate and "recycle" the preserved ruins of the old Washburn-Crosby Flour Mill. Eco-friendly choices made throughout the process—from energy-efficient lighting systems to nontoxic building materials and furnishings—reflect McKnight's long-term commitment to the environment.

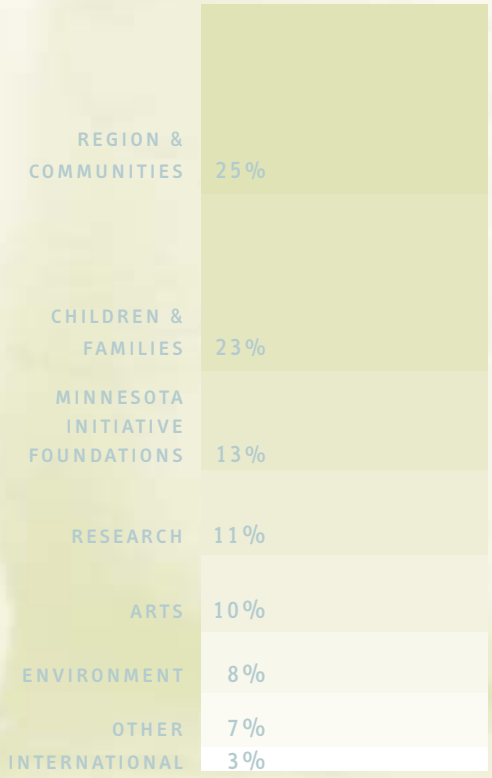
IN 2003

Total # of grants paid	729
Total $ of grants paid	$75 million
Largest grant paid *(to Family Housing Fund)*	$7.5 million
Percent of grants paid that were less than or equal to $100,000	36%
Percent of grants paid that remained in Minnesota	78%
Total assets	$1.9 billion



GRANT DOLLARS PAID BY GEOGRAPHIC AREA

GRANT DOLLARS PAID BY PROGRAM AREA



THE McKNIGHT FOUNDATION

1953·2003

STATEMENTS OF FINANCIAL POSITION

December 31, 2003 and 2002 (in thousands)

	2003	2002
ASSETS		
Cash	$ 86	$ 87
Investments	1,907,772	1,545,082
Interest and Dividends Receivable	2,126	1,581
Other Assets	4,019	2,965
Total Assets	1,914,003	1,549,715
LIABILITIES AND NET ASSETS		
Grants Payable	$ 109,318	$ 129,123
Federal Excise Taxes	5,260	–
Other Liabilities	3,416	1,145
Total Liabilities	117,994	130,268
Unrestricted Net Assets	1,796,009	1,419,447
Total Liabilities and Net Assets	1,914,003	1,549,715

STATEMENTS OF ACTIVITIES

December 31, 2003 and 2002 (in thousands)

	2003	2002
INVESTMENT INCOME		
Interest and Dividends	36,186	40,344
Net Realized and Unrealized Gain (Loss)	403,778	(268,608)
Other	9,924	71
Net Investment Income	449,888	(228,193)
EXPENSES		
Grants Appropriated, net of returns	55,406	93,357
Investment Management	5,324	5,012
Administrative and Program Expense	6,888	6,614
Federal Excise Tax (Benefit)	5,547	(1,602)
Miscellaneous Tax	161	114
Total Expenses	73,326	103,495
CHANGE IN UNRESTRICTED NET ASSETS	376,562	(331,688)
UNRESTRICTED NET ASSETS AT BEGINNING OF YEAR	1,419,447	1,751,135
UNRESTRICTED NET ASSETS AT END OF YEAR	$ 1,796,009	$ 1,419,447

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Laura Zimmermann
PROGRAM OFFICER

MATCHING GIFTS

The Employee Matching Gift Program, initiated in June 1996, encourages employee philanthropy and volunteerism. Under the program, The McKnight Foundation will match employee gifts up to $2,000 annually per employee on a two-for-one basis. The Foundation will also match each 40 hours of time volunteered by an employee at a qualifying organization with a $500 gift to the organization. During 2003, The McKnight Foundation contributed $29,760 to 75 organizations to which 23 employees had donated time or money.

The McKnight Foundation is committed to the protection of our environment, a philosophy that underlies our practice of using paper with post-consumer waste content, and wherever possible, environmentally friendly inks. Additionally, we partner with printers who participate in the PIM Great Printer Environmental Initiative. This annual report was printed on Domtar Sandpiper, containing 100 percent post-consumer waste, and Mohawk Satin, containing 30 percent post-consumer waste.

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